vulcan

1973 ANNUAL REPORT

VULCAN CORPORATION

Vulcan Corporation
Cincinnati, Ohio

Officers
As of 3-15-74

LAWRENCE B. AUSTING
President

SELDEN F. HIGH
Chairman of Executive Committee

WALLACE H. PEARSON
Vice President and Treasurer

VERNON E. BACHMAN
Secretary

GLEASON W. LUNN
Controller

JOSEPH GLENDYE, JR.
Assistant Treasurer

ROSEMARY LANGE
Assistant Secretary

Directors
As of 3-15-74

*LAWRENCE B. AUSTING
President/Vulcan Corporaion

ROLF H. BROOKES
Senior Vice President
The First National Bank of Cincinnati

J. W. BROWN
Brown, Korbee, Cummins & Brown

*WM. T. CRUTCHFIELD
W. E. Hutton Company

J. HOWARD FRAZER
President/American Controlled Industries, Inc.

*BENJAMIN GETTLER
Chairman of the Board
American Controlled Industries, Inc.

*GEORGE B. GREAVES
Vice President/Retired
Greaves Machine Tool Co.

**SELDEN F. HIGH
Chairman of the Board
Sullivan Electric Co.

JOHN F. KOONS, JR.
President/Central Investment Corp.

GRANT F. NEWELL
President/Valley Industries, Inc.

*DR. S. SUMNER ROCKWERN M.D.
Physician

**Chairman, *Member, Executive Committee

STOCK TRANSFER AGENTS
The First National Bank of Cincinnati,
Cincinnati, Ohio
Chemical Bank, New York, New York

AUDITORS
J. D. Cloud & Company, Cincinnati, Ohio
Wipfli, Ullrich & Company, Wausau, Wisc.
Clarkson, Gordon & Co., Kitchener, Canada

REGISTRARS
The Central Trust Company, Cincinnati, Ohio
Chemical Bank, New York, New York

Summary of 1973

	1973	1972	% of CHANGE
NET SALES	**$37,034,938**	$35,300,418	+ 4.9
NET EARNINGS	**452,209**	707,119	−36.0
AFTER TAXES EARNINGS PER COMMON SHARE	**.22**	.35	−37.1
COMMON DIVIDENDS PER SHARE	**.075**	.10	−25.0
SHAREHOLDER INVESTMENT	**9,641,840**	9,377,596	+ 2.8

63RD ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1973

Fourth Quarter
Ended December 31, 1973

This financial data is presented in lieu of a separate interim report for the fourth quarter.

	Three Months Ended Dec. 31, 1973	Three Months Ended Dec. 31, 1972
SALES	$9,215,647	$10,628,404
EARNINGS BEFORE PROVISION FOR INCOME TAXES	555,142(1)	704,377
PROVISION FOR INCOME TAXES	195,739	324,764
NET EARNINGS	359,403	379,613
EARNINGS PER COMMON SHARE OUTSTANDING	$.18	$.19

FOOTNOTE 1 — Includes nonrecurring income from the sale of real estate in the amount of $190,297 and income of $180,000 resulting from reserves provided during the year for year-end expenses which were in excess of the amount actually expended.

March 15, 1974

LAWRENCE B. AUSTING
President/Vulcan Corporaion

To the Shareholders

1973 was a year of contrast as the bright promise of the first quarter was dimmed by a series of occurrences beginning in the second quarter and continuing through much of the remainder of the year. Among these occurrences:

a. the failure of the bowling pin replacement market to develop in Japan which forced severe production cutbacks;

b. the decline in shoe last production to an all-time industry low of less than 2,000,000 pairs, down 20 percent from the previous five-year average;

c. the two-month price freeze ended August 12, which delayed needed price increases;

d. the shortages of petrochemical-based plastic and rubber materials during the last half of the year which affected production schedules and product development. This also caused a buildup and imbalance of inventory with a heavy demand on operating funds because of drastically shortened payment terms.

Adjustments have been and are being made to compensate for the changes in operating conditions; however, there is inevitably a lag between the time a problem develops and the time in which the corrective action can be instituted and made effective.

In addition to plant consolidations, which are described elsewhere in the report, the operating divisions of the company were reorganized during the latter part of 1973 to establish more clear-cut sales, marketing and manufacturing responsibilities. Five new divisions, all staffed with existing personnel, replaced Shoe Products, Plastic Products and Sports Products. They are: Shoe Last and Unit Sole, Molded Products, Rubber Products, Specialty Products, Bowling Products.

EARNINGS . . . Net sales were \$37,034,938 in 1973 compared to \$35,300,418 in 1972. Net profits for the year, after taxes, were \$452,209 or 22¢ per share after payment of dividends on preferred stock. This compared to profits of \$707,119 or 35¢ per share in 1972.

The 1973 earnings included a nonrecurring income of \$202,213 from the sale of real estate compared with \$80,225 from sales of capital assets and insurance recovery in 1972.

FINANCIAL . . . Net working capital at December 31, 1973 was \$6,596,570 compared to \$7,679,370 in 1972. Capital expenditures, exclusive of acquisitions, were \$1,702,232 compared to a total depreciation of \$1,451,141. Stock options in the amount of 5000 shares are outstanding. 134 shares of \$3.00 Prior Preferred Stock and 260 shares of \$4.50 Cumulative Preferred Stock were purchased and retired. The combined total of the number of Common Shares outstanding and in Treasury at December 31 is the same as in 1972.

The corporation suspended quarterly dividend payments on the Common Stock during the fourth quarter.

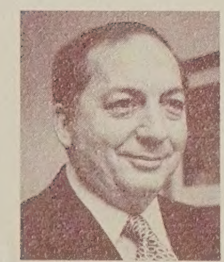
WOODARD AND WRIGHT PERSONNEL, M. R. Prang, Vice President — Sales; R. F. Ripley, President, and R. Woodard, Model Coordinator, in Woodard and Wright's relocated styling center at the Brockton, Massachusetts plant.

LOUIS F. LAUMAN, Pres. Shoe Last – Unit Sole Div.

SHOE LAST-UNIT SOLE DIVISION . . .
A combination of production difficulties, material shortages, a further increase of 6.4% in imports over 1972 and, during the last quarter, a change in style concepts that de-emphasized unit sole use prevented the sale of Coordimated® unit soles from reaching the goals we had established for this product. Despite this temporary de-emphasis, unit soles remain a product with a definite place in the industry and we would expect our sales to grow steadily unless material shortages create insoluble problems.

As noted in the opening comments, the production of the shoe last industry hit an historic low in 1973. Adjusting for this occurrence, the Woodard and Wright last manufacturing plant in East Bridgewater, Massachusetts was closed in the fourth quarter and the production of this wholly-owned subsidiary transferred to the corporation's modern, market-oriented last plants in Brockton, Massachusetts; Blanchester, Ohio; Kenton, Tennessee and Walnut Ridge, Arkansas. This action should effect a considerable savings in manufacturing and distribution costs while still leaving the corporation with ample capacity to service the industry.

UNIT SOLE PRODUCTION LINE AT LAWRENCE, MASSACHUSETTS MOLDING PLANT.
Coordimated® unit soles are also produced in Preston, Ontario, Springfield and Clarksville, Tennessee.



ROBERT L. MASON, Pres. Molded Products Div.

MOLDED PRODUCTS DIVISION . . .
This division has been assigned the responsibility for all the molded plastic products and the related finishing or assembly operations; this includes shoe heels and all products of the former Plastics Division.

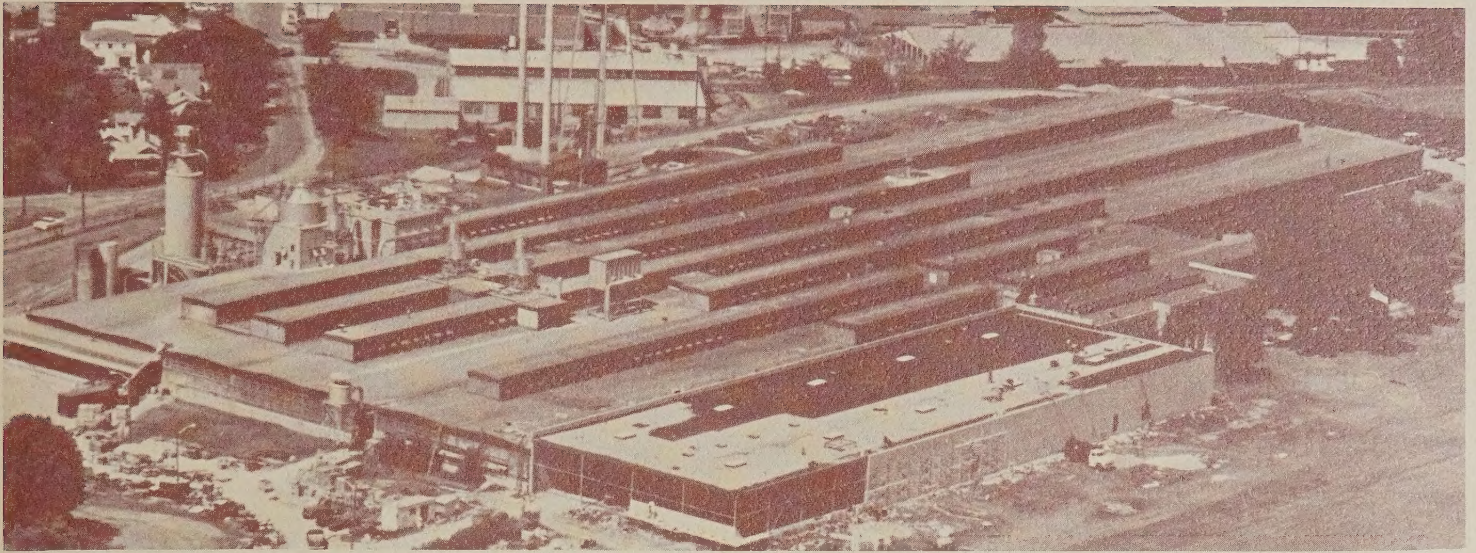
In the heel operations, 1973 was an active year devoted in large measure to consolidating plants to meet more effectively the ever-changing industry conditions. In Canada, both the Quebec plant (March, 1973) and the Streetsville plant (October, 1973) heel finishing operations were closed and the production transferred to the Montreal plant considerably strengthening this operation.

In late November, the Catholic School Commission served official notice of intent to expropriate the Montreal plant site, occupancy to be taken by the end of June, 1974. Plans were immediately prepared and implementation begun to comply with this deadline.

In the United States, a heel finishing operation in Amesbury, Massachusetts (July, 1973) was consolidated with the previously existing heel molding and finishing plant operated by the corporation's subsidiary, Amesbury Plastic, Inc., in the same community.

More unit sole molding equipment has been installed in the Lawrence, Massachusetts plant to offset reductions in the heel volume suffered as a result of the continued growth of imports and the increased use of unit soles which replace heels. Because of plastic shortages, there has been a renewed interest in wood heels and both wood heel turning plants in South Charleston, Ohio and Springfield, Tennessee are prepared to increase production, if necessary.

Inasmuch as most plastic material is being allocated on the basis of past usage, it is extremely difficult to obtain material for new products. This shortage has forced a re-evaluation of the various plastic products on which the corporation has been working. Until material becomes more readily available, the corporation is concentrating on Plasticor®, (the plastic tube for business machine rolls) and selected custom molded products, eliminating housewares, cassettes and any other product lines on which development work was underway.



RUBBER PRODUCTS PLANT, CLARKSVILLE, TENNESSEE during construction of 32,000 square foot addition which was completed September, 1973. This plant contains 272,000 square feet on 30 acres of land.

CHARLES E. SMITH, Pres. Rubber Products Div.

RUBBER PRODUCTS DIVISION . . . This division, with its manufacturing plant in Clarksville, Tennessee and regional warehouses in Hanover, Pennsylvania and Brockton, Massachusetts, was originally included in the Shoe Products Division when acquired from B. F. Goodrich in 1972.

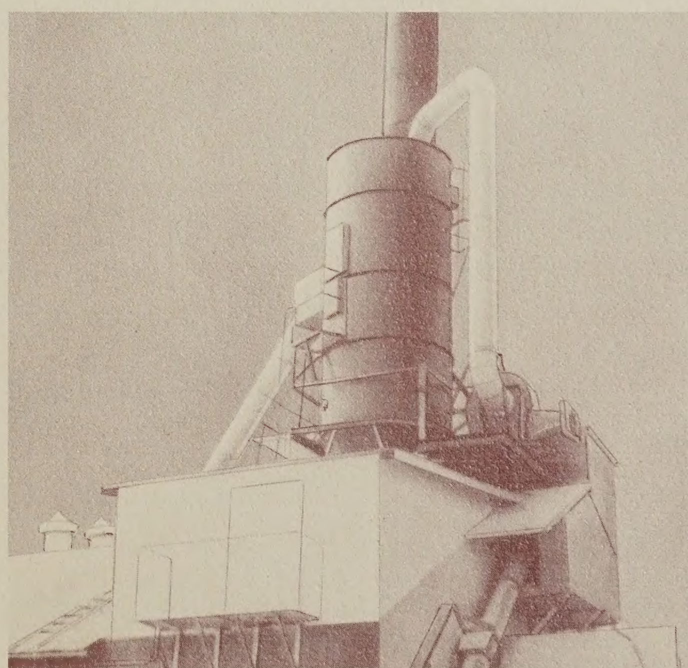
The Clarksville plant has been operating successfully. During the year a 32,000 square foot addition to the plant was completed. This addition provides space for a polyurethane molding operation, a scrap recycling program and expansion of the microcellular soling capacity. When synthetic rubber and other key chemicals were put on allocation during the latter part of 1973, the scrap recovery program took on another dimension beyond its original goals of cost reduction and improvement of the ecology; it offset the fifteen to twenty percent shortfall of petrochemical-based materials that would otherwise have severely affected the operation.

An aggresive sales force and a continuing flow of new product developments closely attuned to industry needs, along with a manufacturing organization that meets delivery requirements with quality production, has enabled this division to maintain a high-volume level.

GEORGE M. ZIEPFEL, Pres. Bowling Products Div.

BOWLING PRODUCTS DIVISION . . . The anticipated sales of replacement pins to the Japanese market failed to materialize as this market did not follow the pattern established in the United States when its lane-building boom ended in the 60's. In Japan, after the expansion boom was over at the end of 1972, bowling began to lose its popularity, lineage decreased, lanes closed. The reaction was far more severe than anyone in the industry expected. By year end in 1973 almost one-third of the lanes have been closed dumping large quantities of used pins on the market. This cutback, along with very substantial inventories in the hands of the Japanese distributors, effectively eliminated the replacement market not only for 1973, but possibly for 1974 as well. As information on this situation developed, beginning in the second quarter, production was curtailed to an ever-increasing extent, eventually being suspended entirely in November at both the Richland Center, Wisconsin coating plant and the Hancock, Michigan billet plant. These operations have been mothballed.

Domestic sales are improving as more effort is being concentrated on this market and we should be in a position to begin increasing production levels at the Antigo plant by the third quarter.

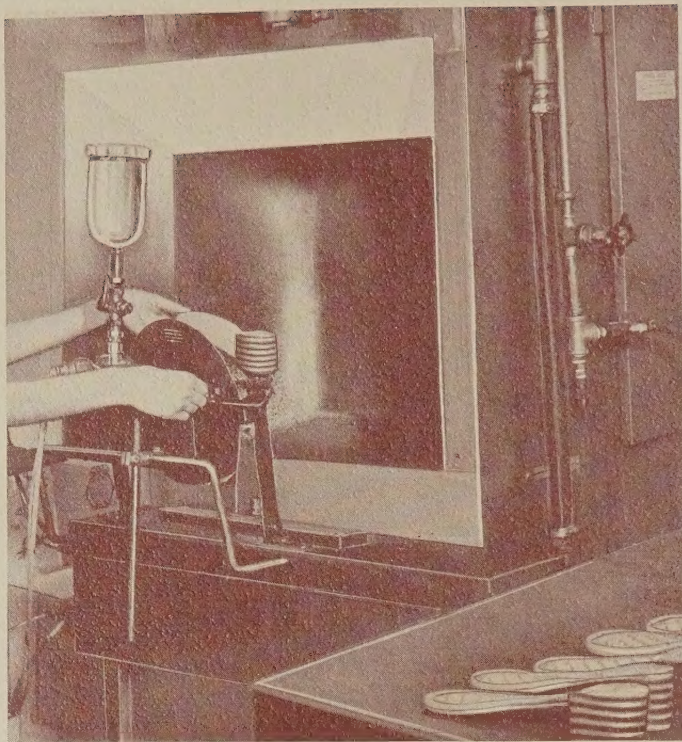


POLLUTION CONTROL INSTALLATION AT ANTIGO, WISCONSIN BOWLING PIN PLANT. This recently installed equipment reduces particulate emissions below EPA standards and permits recirculation of heated plant air.

RAYMOND A. DeNUCCIO, Pres. Specialty Products Div.

SPECIALTY PRODUCTS DIVISION . . . The Specialty Products Division was established to encourage growth in our moldmaking operations in Andover, Massachusetts, at Lolli Mfg., Inc. in Leominster, Massachusetts, the Surface Coatings Plant in Amesbury, Massachusetts and the sale of related lines of machinery.

The corporation's moldmaking operations were removed from the Lawrence plant and reestablished in the former last plant in Andover, Massachusetts. In the new location they are able not only to produce molds for the company, but also to perform contract tool and die work. Lolli Mfg., Inc., an injection moldmaker in which your corporation owns a fifty percent interest, continues to supply a representative proportion of the corporation's mold requirements in addition to producing molds for the general plastics industry. The sale of True Bros., Leicester, England, equipment under an agency agreement was initiated during the year. These machines, used in heel and shoe finishing, were shown at the Footwear Management Conference in Atlantic City (October 30 - November 2) and were well received. Many of these units relate closely to the sale and use of finishing materials supplied by the Surface Coatings Plant.



UNIT SOLE FINISHING MACHINE manufactured by True Bros., Leicester, England. One of a line of heel and unit sole finishing machines produced by this company and sold by Vulcan's Specialty Products Division in North America.

PROPERTY MANAGEMENT . . . At year end the corporation owned 11,289 acres of land and timber and 1,680 acres of long-term timber cutting rights in Michigan's Upper Peninsula.

Because of the many plant consolidations that have taken place in recent years, the corporation has a number of surplus pieces of real estate. During the year the property formerly occupied by the heel plants in Johnson City, New York and Vandalia, Illinois as well as the last plant in Stoughton, Massachusetts were sold. Remaining available at year end were buildings in Streetsville, P.O. and Quebec City, P.Q.; East Bridgewater, Massachusetts and Amesbury, Massachusetts. Most of this property is occupied under leases cancellable on short notice in the event of sale.

NOTES AND COMMENTS . . . The economy in general is beset with the uncertainties of the oil-petrochemical-energy-related crisis. This shortage has created a plethora of problems — material and fuel shortages, soaring costs, shortened credit terms — which have put new, and to some extent, unprecedented strains on every business dependent on petrochemical-based materials. Most present-day Americans used to living in a land of abundance are ill-equipped to cope with shortages. Despite this, we firmly believe the ingenuity of American business will overcome these problems and move on to new levels of efficiency and prosperity.

In your own company, though allocations of material have been reduced below the normal level, we have been able to meet our sales requirements by redesigning products to reduce material content, by recompounding to permit use of substitute materials and by reusing larger quantities of scrap which previously seemed impractical to recover. It is believed, therefore, the plastic and rubber shortages, unless they become significantly worse, will not create insoluble problems for your company.

The plant consolidations and other adjustments made in our operations, described elsewhere in this report, along with an alert reaction to any changes that may occur in 1974 should produce improved results and a return to respectable profits; in fact, "Return to Profit Respectability" has become both a slogan and a goal for the entire Vulcan organization in 1974. We think we have the personnel, the products and the perseverance to make this a reality.

Respectfully submitted,
VULCAN CORPORATION

Lawrence B. Austing
President

By Order of the Board of Directors

Vulcan Corporation
Consolidated Statement of Earnings

For the years ended December 31, 1973 and December 31, 1972

		1973	1972
Net sales		**$37,034,938**	$35,300,418
Cost of sales		**32,614,521**	30,347,498
Gross profit		**4,420,417**	4,952,920
Selling, general and administrative expenses		**3,453,877**	3,466,243
Earnings from operations		**966,540**	1,486,677
Other income:			
Gain on sale of buildings and equipment		**202,213**	80,225
Miscellaneous		**213,067**	221,823
		415,280	302,048
TOTAL		**1,381,820**	1,788,725
Other expenses:			
Interest		**612,116**	431,290
Miscellaneous		**65,701**	67,684
		677,817	498,974
Earnings — Before provision for taxes on income		**704,003**	1,289,751
Provisions for taxes on income:	Note 5		
Current		**249,409**	497,572
Deferred		**2,385**	85,060
		251,794	582,632
NET EARNINGS		**$ 452,209**	$ 707,119
Earnings per common share outstanding	Note 1	**$.22**	$.35

Consolidated Statement of Retained Earnings

For the years ended December 31, 1973 and December 31, 1972

BALANCE AT BEGINNING OF YEAR	**$ 6,461,259**	$ 5,975,373
Net earnings for the year	**452,209**	707,119
	6,913,468	6,682,492
Cash dividends paid —		
$3.00 Prior Preferred, $3.00 per share	**5,886**	6,166
$4.50 Cumulative Preferred, $4.50 per share	**17,495**	18,470
Common, $.075 per share 1973; $.10 per share 1972	**142,413**	196,597
	165,794	221,233
BALANCE AT END OF YEAR	**$ 6,747,674**	$ 6,461,259

The accompanying notes to financial statements are an intergral part of this statement.

ASS

CURRENT ASSETS:

Cash

Accounts and notes receiva
(less allowance for poss
in collection, $267,135
$229,521 in 1972).

Inventories Note 1

Prepaid insurance

PROPERTY, PLANT AND EQU
Land

Timberlands and timber cu

Buildings and improvement

Machinery and equipment

Leasehold improvements

Total

Less-Accumulated depreciat

DEFERRED CHARGES AND C

MODELS AND PATTERNS-at n

TOTAL

The accompanying notes to financial statem

Vulcan Corporation
Consolidated Balance Sheet

At December 31, 1973 and December 31, 1972

	1973	1972
	$ 296,964	$ 489,468
es		
	6,219,613	7,231,730
	7,438,789	5,880,965
	177,263	136,683
	14,132,629	13,738,846
T: Note 1		
	287,678	317,147
ts	554,123	548,673
	6,329,831	6,157,415
	12,231,469	11,242,022
	232,723	240,007
	19,635,824	18,505,264
	9,809,410	8,806,913
	9,826,414	9,698,351
ASSETS	1,253,673	1,161,221
value	1	1
	$25,212,717	$24,598,419

integral part of this statement.

LIABILITIES AND SHAREHOLDER

CURRENT LIABILITIES:	
Notes payable	Note 3
Accounts payable —	
Trade	
Other	
Accrued expenses	
Current portion of long term debt	
OTHER LIABILITIES	
LONG TERM DEBT	Note 4
SHAREHOLDERS' EQUITY:	
Capital stock —	
$3.00 Prior Preferred, stated value $100.00 per share; authorized 6,641 shares; outstanding 1,917 shares — 1973; 2,051 shares — 1972	
$4.50 Cumulative Preferred, stated value $55.00 per share — redemption or liquidation value $100.00 per share; authorized 13,281 shares; outstanding 3,781 shares — 1973; 4,041 shares — 1972	
Common — no par value; Authorized 3,000,000 shares; issued 1,969,512 shares	
Capital surplus	
Retained earnings	
Less — Common stock in treasury — at cost — 3,584 shares	
TOTAL	

QUITY

1973	1972
1,840,000	$ 885,000
3,099,342	2,996,620
80,224	92,014
922,007	905,385
1,594,486	1,180,457
7,536,059	6,059,476
110,361	191,234
7,924,457	8,970,113
191,700	205,100
207,955	222,255
246,189	246,189
2,288,236	2,282,707
6,747,674	6,461,259
9,681,754	9,417,510
39,914	39,914
9,641,840	9,377,596
25,212,717	$24,598,419

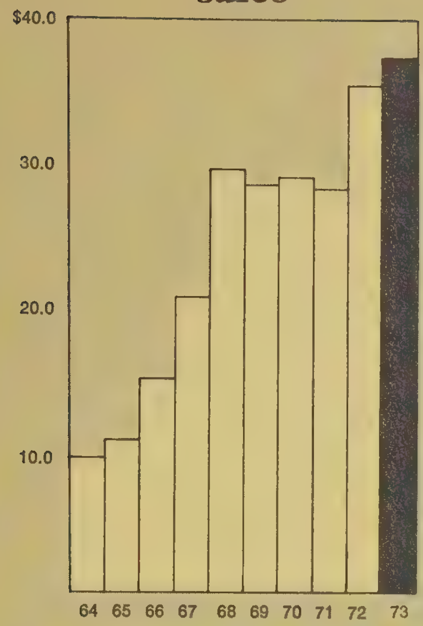
Vulcan Corporation
Consolidated Statement of Changes in Financial Position

For the years ended December 31, 1973 and December 31, 1972

	1973	1972
SOURCES OF WORKING CAPITAL:		
Net earnings	$ 452,209	$ 707,119
Add (deduct) items not requiring current outlay (receipt) of funds —		
Provision for depreciation	1,451,141	1,289,324
Provision for depletion	20,896	8,691
Deferred charges absorbed in operations	1,262,826	871,318
Gain on sale of buildings and equipment	(202,213)	(80,225)
Funds provided from operations	2,984,859	2,796,227
Increase in long term borrowing	—	5,110,330
Increase in other liabilities	—	86,473
Proceeds from sale of property, equipment and timber tracts	318,700	104,177
TOTAL	3,303,559	8,097,207
APPLICATION OF WORKING CAPITAL:		
Purchase of property, plant and equipment	1,702,232	4,330,910
Purchase of timber tracts	18,400	94,250
Additions to deferred charges and other assets	1,355,277	1,435,575
Decrease in long term borrowing	1,045,656	—
Decrease in other liabilities	80,873	—
Other changes in fixed assets — net	(4,044)	(35,726)
Purchase of treasury shares	—	6,600
Cash dividends paid —		
Preferred stock	23,381	24,636
Common stock	142,413	196,597
Retirement of preferred stock	22,171	10,841
TOTAL	4,386,359	6,063,683
INCREASE (DECREASE) IN WORKING CAPITAL	($1,082,800)	$2,033,524
ANALYSIS OF INCREASE (DECREASE) IN WORKING CAPITAL:		
Increase (decrease) in current assets —		
Cash	($ 192,504)	($ 156,447)
Accounts receivable	(1,012,117)	2,057,498
Inventories	1,557,824	2,416,979
Prepaid insurance	40,580	12,416
Total	393,783	4,330,446
Increase (decrease) in current liabilities —		
Notes payable due within one year	1,369,029	1,112,286
Accounts payable	90,932	1,538,772
Accrued expenses	16,622	128,431
Accrued federal taxes on income	—	(482,567)
Total	1,476,583	2,296,922
INCREASE (DECREASE) IN WORKING CAPITAL	($1,082,800)	$2,033,524

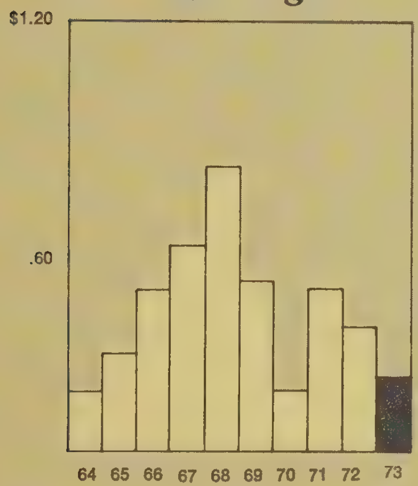
The accompanying notes to financial statements are an intergral part of this statement.

Sales



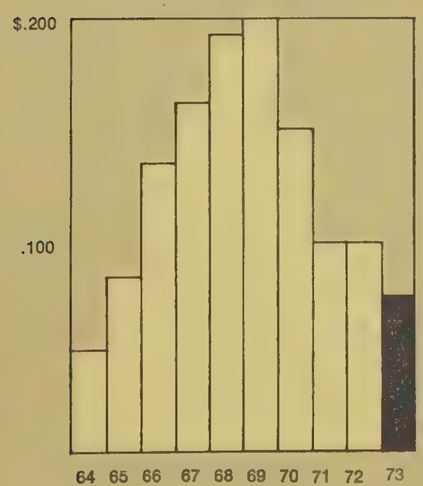
NET SALES (in millions)

Earnings



EARNINGS per common share

Dividends



DIVIDENDS per common share

10 year Record of Growth

	1973
NET SALES	$37,034,938
DEPRECIATION	1,451,141
EARNINGS BEFORE TAXES	704,003
INCOME TAXES	251,794
NET EARNINGS	452,209
EARNINGS PER COMMON SHARE*	.22
DIVIDENDS PER COMMON SHARE*	.075
TOTAL ASSETS	25,212,717
PROPERTY, PLANT AND EQUIPMENT	9,826,414
CURRENT ASSETS	14,132,629
RATIO CURRENT ASSETS TO CURRENT LIABILITIES	1.88 to 1
TOTAL SHAREHOLDERS' EQUITY	9,641,840

Vulcan Corporation and Subsidiaries

	1972	1971	1970	1969	1968	1967	1966	1965	1964
	$35,300,418	$27,698,617	$28,569,590	$28,467,388	$29,648,125	$21,436,477	$15,002,912	$11,813,997	$ 9,881,967
	1,289,324	1,127,658	1,182,375	1,131,516	972,348	662,079	481,308	409,427	460,033
	1,289,751	1,566,974	789,990	1,811,573	3,076,478	2,121,433	1,371,081	835,692	511,921
	582,632	730,045	416,681	862,663	1,527,931	979,756	575,034	343,881	186,949
	707,119	836,929	373,309	948,910	1,548,547	1,141,677	796,047	491,811	324,972
	.35	.41	.18	.48	.79	.59	.41	.25	.15
	.100	.100	.150	.200	.195	.167	.137	.084	.048
	24,598,419	16,636,249	16,826,679	17,737,761	15,210,379	12,840,547	10,368,248	6,244,622	5,675,341
	9,698,351	6,630,884	7,011,504	6,117,320	5,842,225	4,355,922	3,634,601	2,095,706	1,945,715
	13,738,846	9,422,350	9,219,432	10,995,347	8,736,244	8,030,547	6,498,824	4,066,299	3,635,277
	2.27 to 1	2.50 to 1	1.49 to 1	1.41 to 1	1.63 to 1	1.96 to 1	2.71 to 1	3.37 to 1	4.38 to 1
	9,377,596	8,909,151	8,304,921	8,261,087	7,278,615	6,237,628	5,422,552	5,000,838	4,776,442

*Reflects two-for-one stock split effective April 23, 1969, 5% stock dividend paid May 15, 1968, two-for-one stock split effective June 2, 1967, and two-for-one stock split effective April 28, 1961. Per share earnings have been computed in accordance with currently accepted practice on the basis of the weighted average number of shares outstanding during the year.

VULCAN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1973

NOTE 1 — SUMMARY OF ACCOUNTING POLICIES:

Basis of consolidation —

The consolidated financial statements include the accounts of the parent company and its subsidiaries both in the United States and Canada, all of which are wholly-owned. In consolidation, all significant intercompany items and transactions have been eliminated.

Earnings per share —

Earnings per share of common stock outstanding are computed on the basis of weighted average number of common shares outstanding during each year after giving effect to dividends on preferred shares.

Income tax —

Current federal income tax expense on the financial statements is based generally on reported income. Deferred federal income tax expense is provided as a result of recording certain income in the current year which is reportable for tax purposes in a later year. The liability for deferred federal income tax is included in the "Other Liabilities" section of the balance sheet.

Investment tax credits are accounted for on the "flow-through" method, which recognizes the benefits in the years in which the assets, which gave rise to the credits, are placed in service.

Refer to Note 5 for reconciliation of income tax expense.

Inventory valuation —

Inventories are generally stated at average cost (first-in, first-out) not in excess of market.

Pensions —

The company and certain of its subsidiaries maintain contributory and noncontributory pension plans for eligible salaried and hourly employees. Most pension costs under these plans are determined annually by consulting actuaries and include amortization of prior service cost over a thirty year period. The company's policy is to fund pension cost accrued.

Property, plant, equipment and accumulated depreciation —

Property, plant and equipment are stated at cost less accumulated depreciation and depletion. The company provides for depreciation over the estimated useful lives of the respective assets utilizing both straight line and accelerated methods. Timber depletion charges are based on the cost of timber cut. Expenditures for additions, improvements and betterments are capitalized; expenditures for maintenance and repair are charged to earnings. As a general rule, retirements and disposals of property, plant and equipment are eliminated from the asset accounts, the accumulated depreciation relating thereto is eliminated from the accumulated depreciation accounts and any resulting gains or losses are credited or charged to earnings.

Research and development and goodwill —

Research and development expenditures are charged to earnings as incurred. Goodwill is being amortized over a 40 year period.

NOTE 2 — Pension expense for the years 1973 and 1972 amounted to $265,457 and $266,950 respectively. Unfunded prior service cost at December 31, 1973 and 1972 amounted to approximately $540,000 and $680,000 respectively. The actuarially computed values of vested benefits for all plans as of December 31, 1973 and 1972 were less than the total of the pension funds and balance sheet accruals at the respective dates.

NOTE 3 — The short term borrowing of the company at December 31, 1973 consists of notes payable to banks. The average interest rate on the balance outstanding at the same date was 10%. The maximum amount of aggregate short term borrowing at any month-end during the year was $1,845,000. The approximate average aggregate short term borrowing outstanding during the year was $1,120,000 (average based on month-end balances during the year). The approximate weighted average interest rate on these borrowings was 9% (based on the weighted average interest rate computed on balances outstanding at each month-end during the year).

NOTE 4 — Long term debt exclusive of the current portion consisted of the following:

	1973	1972
Notes payable to banks:		
7% payable in quarterly installments of $166,667	$1,666,664	$2,333,332
10½% payable in annual installments of $21,000	41,000	62,000
Notes payable — other:		
8¾% payable in semi-annual installments of $33,333	866,667	933,333
6% payable in progressive annnual amounts ranging from $500,000 to $926,983 through 1977	2,026,983	2,426,983
6% "Small Business Administration Loans" due in 1975 in monthly installments of $2,778, including interest	24,072	54,946
Mortgages payable to banks:		
6% due in 1977, in monthly installments of $311, including interest	10,042	13,156
6¾% due in 1983, in monthly installments of $1,195, including interest	94,097	102,047
7½% due in 1979, in monthly installments of $971, including interest	44,048	52,706
Long term lease obligations	3,150,884	2,991,610
	$7,924,457	$8,970,113

The approximate annual aggregate maturities of long term debt for the next five years are as follows:

1974	$1,600,000
1975	1,415,000
1976	1,490,000
1977	1,775,000
1978	216,000

Provisions of loan agreements relating to certain long term debts (excluding long term lease obligations) require the company, among other things, to maintain consolidated net current assets of $6,000,000, to obtain the consent of the lenders to create any mortgage or lien upon any assets, and also to obtain consent to declare or pay any cash dividends on, purchase, acquire, or redeem any of its capital shares, if the effect of any such action would reduce its retained earnings below $5,000,000.

The long term lease obligations which relate to land, buildings and machinery and equipment leased from certain municipalities are as follows:

	1973	1972
Montgomery County, Tennessee	$1,840,000	$1,640,000
City of Brockton, Massachusetts	910,000	935,000
City of Springfield, Tennessee	400,884	416,610
	$3,150,884	$2,991,610

Plant facilities at Clarksville, Tennessee were financed by the sale of County of Montgomery, Tennessee Industrial Development Revenue Bonds. The issue bears interest of 5½% to 7½% per annum and matures serially in progressive annual amounts ranging from $50,000 in 1974 to $190,000 in 1992. The lease payments to be made by the company are in an amount equal to principal and interest payments due on the bonds through 1992 plus trustees' fees and other expenses in accordance with the indenture. Under the terms of the lease

agreement, the company has an option to purchase the facilities for a nominal sum at the expiration or sooner termination of the lease term following full payment of the bonds or provision for payment in accordance with the terms of the indenture.

The Brockton facilities were financed by the sale of City of Brockton, Massachusetts Industrial Revenue Bonds. The issue bears interest of 7% to 8¼% per annum and matures serially in progressive annual amounts ranging from $25,000 in 1974 to $100,000 in 1990. The lease payments to be made by the company are in an amount equal to principal and interest payments due on the bonds through 1990. Under the terms of the lease agreement, the company has an option to purchase the facilities for a nominal sum at the expiration or sooner termination of the lease term following full payment of the bonds or provision for payment in accordance with the terms of the indenture.

The Springfield facilities were financed by private funds. The lease obligation is payable over 20 years, beginning in 1970, in annual amounts of $40,884 representing both principal and interest. Under the terms of the lease agreement the company has the right to purchase the facilities at any time for the unpaid principal balance owing.

In all instances, the leasehold interests have been capitalized; the assets are included in property, plant and equipment and are being depreciated over their estimated useful lives.

NOTE 5 — Income tax expense is made up of the following components:

	U.S. FEDERAL	STATE & LOCAL	TOTAL
1973—			
Current tax expense	$163,015	86,394	249,409
Deferred tax expense	2,385	—	2,385
	$165,400	86,394	251,794
1972—			
Current tax expense	$370,940	126,632	497,572
Deferred tax expense	85,060	—	85,060
	$456,000	126,632	582,632

J. D. CLOUD & CO.
CERTIFIED PUBLIC ACCOUNTANTS
TRI-STATE BUILDING
CINCINNATI, OHIO

To the Board of Directors
Vulcan Corporation
Cincinnati, Ohio

We have examined the consolidated balance sheets of Vulcan Corporation and subsidiaries as of December 31, 1973 and 1972 and the related consolidated statements of earnings, retained earnings, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to any adjustments which may result from final determination of the litigation described in Note 7 to the financial statements, the accompanying consolidated financial statements present fairly the consolidated financial position of Vulcan Corporation and subsidiaries at December 31, 1973 and 1972 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

J. D. Cloud & Co.
Certified Public Accountants

Cincinnati, Ohio
February 21, 1974

The deferred tax expense in 1973 and 1972 arises as a result of recording the parent company's liability for federal income tax on fifty percent of the earnings of a subsidiary which is a Domestic International Sales Corporation (DISC) for current year financial statement purposes, the earnings not being reportable for federal income tax purposes until a later year.

Total tax expense amounted to $251,794 in 1973 and $582,632 in 1972 (an effective rate of 35.8% and 45.2% in 1973 and 1972 respectively). The tax computed by applying the U.S. federal income tax rate of 48% would be $337,921 in 1973 and $619,080 in 1972. The reasons for these differences are as follows:

	1973		1972	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed "expected" tax expense	$337,921	48.0	619,080	48.0
State and local taxes, net of federal tax benefit	44,925	6.3	65,848	5.1
Subsidiary losses available for future tax benefit	34,368	4.9	71,769	5.6
Benefit from income taxed at capital gain rate	(33,166)	(4.7)	(8,117)	(0.6)
Investment and foreign tax credits	(77,736)	(11.0)	(70,841)	(5.5)
Benefit of loss carryovers	(32,417)	(4.6)	—	—
Benefit of multiple surtax exemptions	(13,333)	(1.9)	(10,440)	(0.8)
One half DISC income exempt from tax	—	—	(90,013)	(7.0)
Other	(8,768)	(1.2)	5,346	0.4
	$251,794	35.8	582,632	45.2

NOTE 6 — On May 1, 1972, the company acquired all of the assets of a rubber shoe products plant in Clarksville, Tennessee for approximately $5,450,000 (See Note 7). This acquisition was accounted for as a purchase; therefore, 1972 consolidated earnings of the company include the operations of the Clarksville plant from the date of acquisition.

NOTE 7 — The company has filed suit alleging certain breaches of warranties by the seller in connection with the purchase of the assets of the Clarksville, Tennessee rubber shoe products plant in 1972 referred to in Note 6. The seller has denied the company's allegations and has filed certain counter claims. The ultimate effect of this litigation, which would have an adverse effect on the company's earnings if an adverse decision were rendered, cannot be evaluated at this time. No provision is made in the financial statements for this contingency.

Vulcan Corporation/Plant and Office Locations

UNITED STATES

Amesbury, Massachusetts
Andover, Massachusetts
Antigo, Wisconsin
Blanchester, Ohio
Brockton, Massachusetts
Clarksville, Tennessee
Hancock, Michigan
Hanover, Pennsylvania
Kenton, Tennessee
Lawrence, Massachusetts
Los Angeles, California
Portsmouth, Ohio
Richland Center, Wisconsin
South Charleston, Ohio
Springfield, Tennessee
Union, Missouri
Walnut Ridge, Arkansas

CANADA

Montreal, P. Q.
Preston, P. O.

RESEARCH AND DEVELOPMENT

Cincinnati, Ohio
Clarksville, Tennessee
Lawrence, Massachusetts

SALES OFFICES

Fort Lee, New Jersey
Place Bonaventure, Montreal, P.Q.
St. Louis, Missouri

Vulcan Corporation

Executive, Sales, Engineering, Computer Services —
Six East Fourth Street, Cincinnati, Ohio

Woodard and Wright Last Corp.
Brockton, Mass.

Brockton Last Remodeling Corp.
Brockton, Mass.

The Great Western Heel Co., Inc.
Los Angeles, Calif.

Southern Heel Company
Springfield, Tenn.

Amesbury Plastic, Inc.
Amesbury, Mass.

Morton Last Co.
Portsmouth, Ohio

The Canada Last Co., Ltd.
Preston, P.O., Canada

Penn-Vulcan Heel Co.
Hanover, Pa.

Vulcan International Corporation, Cincinnati, Ohio